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INFO RUCNRAQ/IRAQ COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003005

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E.O. 12958: DECL: 08/16/2016
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SUBJECT: PDS ISSUES TO WATCH CLOSELY, TARIFF AND WTO
DEVELOPMENTS

REF: A. BAGHDAD 2380 B. BAGHDAD 2004

Classified By: Deputy Chief of Mission, Daniel Speckhard for reasons 1.
4 (b) and (d).

1.(C) Summary. In a meeting August 14, EmbOffs met with Director General of Private Sector Development Abdul Hadi al-Hamiri who said on behalf of Minister of Trade al-Sudani that the Ministry of Trade will see that procedures for letters of credit are completed promptly by the Ministry of Finance and Trade Bank of Iraq. He also assured us that there should not be any food shortages. In a meeting with IRMO Director Ambassador Saloom on August 13, the Trade Minister also conveyed his confidence that the problem will be resolved. On the line-by-line tariff system being proposed by Finance Minister Bayan Jabr, Abdul Hadi shared that the Minister believes this system is too elaborate at the current time to be implemented. Iraq's WTO accession progress continues to be hindered by a lack of communication within the Ministry of Trade and decision making within the Government of Iraq (GOI) at large. End summary.

PROBLEMS WITH PDS CONTRACTING AND LETTERS OF CREDIT

12. (C) EmbOffs learned the first week of August that no letters of credit (LCs) for contracts for the Public Distribution System (PDS) have been executed since May 2006 and informed Minister of Trade (MoT) al-Sudani on August 7, 2006 of this problem. In response, Minister al-Sudani noted that he was unaware that no LCs had been issued and that he has been signing contracts for PDS items in June and July 2006. At a meeting August 13, the IRMO Director followed-up on the issue with Minister al-Sudani, who responded that the letters of credit would be addressed and that some domestic purchases would be paid for in cash.

13. (C) We met with DG of Private Sector Development, Abdul Hadi al-Hamiri, on August 14 to obtain further details of Minister al-Sudani's plans to resolve the LC issue. He said that the Ministry of Trade division that deals with procurement for the PDS did not apply for the letters of credit. (Note: Abdul Hadi did not provide a further explanation as to why this problem occurred. End note). In addition, the DG said that the LCs for the contracts will be opened once the negotiations are complete with the Ministry of Finance and Trade Bank of Iraq. In the interim, Abdul Hadi added that the MoT will also pursue direct purchases via cash with domestic suppliers and will draw upon the large quantity of Australian wheat on hand. The MoT will also start a twice-monthly tendering process. (Note: The MoT did not previously have a set schedule for this process. End note).

14. (C) Abdul Hadi emphasized that Minister al-Sudani believed that the delays in the LCs would be taken care of and that no food shortages should occur. The situation does, however, highlight an ineffective administrative system for processing PDS purchases and LCs, as well as a lack of communication within the MoT. Further, the Trade Minister made recent personnel changes in areas related to PDS, including Adnan al-Sharifi's (former Chief of Staff) appointment as the DG for the State Company of Foodstuff Trading, Sabah Abood as head of the Grain Board, and Sabti Jum'a to the Commercial Auditing Office. We are encouraged that the minister is taking steps to address the issue. We will continue to press him and other leaders in the GOI regarding the LCs to prevent potential food shortages.

OTHER VIEWS ON THE FUTURE OF PDS AND REQUEST FOR GUIDANCE

15. (SBU) When pressed that the MoT should eliminate or move to monetize the PDS system, Abdul Hadi said that the government needs to turn over 80% of the PDS to the private sector eventually, noting that transportation for PDS is already run by private trucking companies. He indicated that there will always be a need for some type of government role in public assistance, but hopes this can be minimized to about 20%, or a "strategic reserve" of the current system. Abdul Hadi added that eventually he hopes only those who are in the most need of assistance (i.e. in certain low-income levels) are part of this assistance program. He proposed that Iraq develop a "coupon" system such as exists for low-income people in some states within the U.S. He asked post to provide Minister al-Sudani with examples of "best practices" within the U.S. to use as a model that could be

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implemented in a pilot program for Dahuk or Wasit.

TARIFFS

16. (C) When asked about the line-by-line tariff system post has heard Finance Minister Jabr proposed, Abdul Hadi responded that Minister al-Sudani believes this new proposed tariff system is too elaborate and should not be implemented right now. He did not know whether the Council of Ministers rejected a 10% flat tariff rate, but noted that he would find out. He also noted that Mr. Walid al-Yas is the current representative from the MoT on the Inter-ministerial Tariff Committee. Abdul Hadi promised that he would obtain more details from him about the proposed line-by-line tariff schedule.

WTO ACCESSION

17. (SBU) Emboff asked about the status of Iraq's progress on WTO accession efforts. DG Abdul Hadi said that he was not well-informed, but offered to relay our questions to the minister. When asked if Iraq has selected a WTO Ambassador, Abdul Hadi said that the minister hoped that he could select a "technical person", but that there was pressure for a "political" appointment requiring confirmation from the Council of Ministers. He said that Minister al-Sudani has not made any decisions on whether the Acting DG for the WTO Unit, Mohammed Saleh, will remain in that position. No decisions have been made on selecting a chairman for Iraq's first Working Party. Abdul Hadi said that the GOI is close to finalizing the responses to questions about Iraq's Foreign Trade Memorandum (FTM), but did not specify a date for submission.

18. (C) We have learned in a subsequent meeting with USAID advisors working with the MoT that the Deputy DG of the WTO Unit, Abdul Salam, is really running the WTO Unit and that

the DG Mohammed Saleh is very disengaged with the WTO accession process. In addition, much of the bottleneck appears to be because Abdul Salam is requiring that all inter-ministerial WTO accession documents and information go through him, including the inter-ministerial responses to questions on Iraq's Foreign Trade Memorandum (FTM). USAID advisors said that Abdul Salam has not met with Minister al-Sudani yet, but expects to do so in the near future.

REQUEST FOR ASSISTANCE

¶9. (SBU) We raised the recent priorities established in the recent Memorandum of Understanding signed by Secretary of Commerce Gutierrez and the minister in late July. Abdul Hadi said that he looked forward to working with the Department of Commerce on making progress on the terms of this agreement. He also requested USG assistance in developing a commercial code and noted that a committee has been formed that includes the State Consultation Council, MoT, Chambers of Commerce and Industry, and others. He added that Iraq is currently studying Oman and Egypt's commercial codes and requested USG capacity-building assistance in this area. He mentioned a specific conference at an institute in Cairo that provides technical assistance on international arbitration that would be particularly helpful. (Note: Post will forward the MoT's proposal for consideration to Washington once we receive it. End Note)

COMMENT

¶10. (C) While we are encouraged that the MoT is actively engaged in resolving the LC and contract issue with the PDS system, we are concerned about the lack of communication within the MoT and the Ministry of Finance and that the MoT was unaware of the problem until we raised it. Perhaps the recent changes in personnel working on PDS issues at the MoT will improve the situation. This problem also brings to light the on-going administrative problems in the ministry. This lack of communication is also evident in the minister's contacts with his DG and Deputy DG of the WTO Unit. Despite these challenges, we have a good rapport with Minister al-Sudani and his staff and they are receptive to our assistance and ideas.
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